



**Response by Energia to Consultation on the Biofuels  
Obligation Scheme**

*Consultation on the development of the Biofuels Obligation  
Scheme for the period 2021 to 2030*

12 November 2019

# **1. Introduction**

Energia welcomes the opportunity to respond to this consultation. We are optimistic that an updated Biofuels Obligation Scheme (BOS) can make a meaningful contribution to achieving both Ireland's decarbonisation and renewable energy targets, not just up until the year 2030 but beyond. Indeed, Energia considers it particularly important to consider the changes proposed in the BOS for 2021-2030 within the wider context of the overall goal of achieving a net zero Carbon Emissions target by 2050.

In recognition of the wider policy context the continuation of the BOS fits into, in addition to the interplay of the BOS with other policy measures designed to ultimately achieve Ireland's 2050 targets, we have decided to discuss some of the broader issues we believe are important to consider with regard to the design of the BOS for 2021-30 in section 2 of our response before we addressing the individual consultation questions in section 3 of our response.

## **2. General Comments in relation to the future of the Biofuels Obligation Scheme 2030.**

### **2.1 Interaction of the BOS with wider Policy and Regulations.**

Energia recognises the role the BOS has the potential to play in relation to meeting both Ireland's 2030 and subsequent, renewables and decarbonisation targets. It is vital therefore that the future of the BOS is amended with due consideration to the interplay between Biofuels and other policy/ regulatory considerations.

The interplay between the future BOS and the National Clean Air Strategy is one such consideration that Energia is particularly mindful of, especially in light of the oncoming EU Clean Air Forum later this November. A particular concern would be that achievement of targets within the BOS in relation to the use of a specific set of fuels, conflicts with policy or regulation aimed at reducing air pollution/CO<sub>2</sub> emissions. This concern is likely to increase over time as future developments in Clean Air Policy occur, so it is important to consider not just the potential for conflict between the BOS and Clean Air policy within this window of the BOS, but also subsequent scheme windows, as the technologies covered by the next phase of the BOS are likely to become "locked in" to an extent in future scheme.

In considering the potential for air emissions standards to conflict with the BOS it is important to consider both the location in which biofuels are being combusted and the sector. Biofuels used in the transport sector for farm vehicles and other vehicles that are used in less populated areas, are less likely to inhibit Ireland's ability to meet future air emissions targets than biofuels consumed on congested roads in urban areas. Additionally, the use of biofuels as a replacement fuel for gas in industrial processes or power generation, might one day benefit from having the associated emissions captured as part of a future carbon capture upgrade to the plant or station.

### **2.2 Looking beyond 2030**

As we touched on in the previous section, Energia believe it is important to consider

when deciding upon aspects of the BOS until 2030, not just which biofuels to encourage in this iteration of the scheme but future schemes. Certain technologies are likely to become “locked in” to the scheme, as the support they receive by virtue of being included as a viable biofuel in the scheme encourages investment in supply chains, distribution and technology. It is therefore important that the amendments made to this iteration of the BOS are made with future schemes in mind, ensuring that the wrong fuel isn’t suddenly found to be “locked in” to the scheme’s future. Avoiding this type of technology “lock in” is important both from the perspective of not wasting resources, but also for long term stability in the scheme.

The necessity to make major changes to the obligation between schemes, not only creates a risk of stranding investments and wasting resources, it would also harm the certainty of future schemes and increasing the risk associated with investments in biofuel technology.

## **2.3 Signals for investment, certainty of scheme**

In addition to the need of the BOS to encourage investor certainty now and in the present, it is also important that the correct signals for investment are encouraged on an ongoing basis. Quota based schemes in general run the risk of problems associated with price certainty and missing money, making it difficult for participants to receive a consistent price signal to respond to. As the consultation mentions:

*“There have been very limited examples of the compliance fee being paid to date due to the high level of compliance.”*

It is important therefore that as the scheme progresses the compliance fee acts as viable buy out fee, especially as the compliance fee is set to increase in future. This is particularly important for encouraging investment in new technologies. Ideally the compliance fee will remain aligned to the marginal cost of Biofuel production, however this may prove difficult to achieve as the compliance fee is increased over time. It may therefore be necessary to modify elements of the obligation to ensure that when the compliance fee increases in subsequent scheme years, that the compliance fee continues to act as genuine buy out price and not simply a penalty that is seldom applied in practice. Otherwise a clear price signal will not emerge for the development of biofuels, that cause less environmental externalities.

## **3. Response to Specific Questions**

### **3.1 Question 1**

As per our comments in both sections 2.12.12.2, Energinet would caution against an over-reliance on blending rates as the means by which the target of 14% renewable energy in the transport sector is achieved. This is not to say however that the levels outlined in the Climate Action plan seem inappropriate. It is important however that the current obligation scheme does not come to overly rely on blending rates as a means of meeting both the obligation and the renewable energy in the transport sector target. If air emissions do become a concern beyond 2030 it may prove costly to be obliged to change the balance of fuels making up the obligation at this time, due to factors such as technology lock in. Electrification, gas powered vehicles and potentially hydrogen powered vehicles may prove more stable long-term

prospects with regard to the decarbonisation of transport and it is therefore important that space remains for these technologies to achieve a greater proportion of the transport sector's targets.

### **3.2 Question 2**

Energia have no specific comments in relation to this question, we are aware that other markets around Europe are more advanced in their efforts to increase the percentage of biofuels in both petrol and diesel. If the case has been proven that other nations have encountered few issues with vehicle reliability at greater concentrations of biofuels, it should hopefully be the case that the same concentrations would be tolerable in Ireland.

### **3.3 Question 3**

No specific comments

### **3.4 Question 4**

Energia has no particular comments in relation to timing of these changes, we would echo the Department's view that policy certainty is a priority for the transition to the new obligation. It is also important that during the transition to the new BOS, price certainty can be maintained to the greatest extent possible to ensure that the transition to the new BOS is smooth and that investment signals remain consistent.

### **3.5 Question 5**

We support the approach to introducing an advanced biofuel obligation, especially as a means of encouraging the uptake of a diverse range of biofuels in the transport sector. Sub-targets for advanced biofuels should encourage the type of investment needed to overcome some of the high barriers to entry associated with developing advanced biofuels at scale. The list of what constitutes an advanced biofuel is likely to evolve over time with fuels being added or removed as technology progresses. It is important therefore that thought is given to the timelines associated with classifying a fuel as an advanced biofuel, especially where that classification is sought to be removed.

The benefit of being classed as an advanced biofuel, is likely to be material to the investment case behind a given technology and it is therefore important that these benefits are not withdrawn too quickly. Grandfathering of installations, or a steady reduction in a fuel's multiplier rate over time, are two potential solutions to preventing a sudden drop off in support levels if a biofuel loses its "advanced" classification.

### **3.6 Question 6**

Energia supports the inclusion of the rail industry as an obligated party. We think it is important that all elements of the transport sector receive similar incentives to achieve either decarbonisation targets or renewable targets.

### **3.7 Question 7**

As per our comments in both sections 2.1 and 2.2 Energia believe it is important that the design of the BOS encourages the uptake and development of cleaner fuels that are likely to provide a means of meeting both renewable targets and environmental targets related to emissions. Cleaner fuels should therefore receive additional levels of support to encourage the type of long-term investment that is likely to be required in the development of resources at scale. As the BOS progresses Energia believe that emissions and other environmental externalities should be an additional consideration in the determination of the level of an obligation on a specific fuel.

### **3.8 Question 8**

As per our response to Question 6 Energia considers it important that all methods of transport within the transport sector receive similar incentives to either decarbonise or use greater quantities of renewable fuels. We therefore welcome the proposal to credit biofuels supplied for use in the aviation and maritime sector.

### **3.9 Question 9**

For the reasons outlined in sections Interaction of the BOS with wider Policy and Regulations.2.1, 2.2, Energia believe it is important to introduce multipliers as a means of encouraging the development of biofuels that are as of now nascent technologies. We do not see the potential for fraud as a potential barrier to introducing the proposed multiplier levels and we would note that sufficient means are available to catch and prevent fraud.

### **3.10 Questions 10-12**

Energia wish to answer questions 10-12 collectively. The proposals outlined in relation to these three areas of the consultation seem fair and consistent with Renewable Energy Directive, therefore we have few concerns with what is being proposed.

### **3.11 Question 13**

Energia support the proposal to reduce the number of certificates that can be carried over in any one scheme year to 15% of a parties' obligation. Energia notes there is a relationship between the compliance fee and the ability of obligated parties to carry over an obligation amount in a given year. While we think 15% will provides sufficient flexibility for obligated parties, further reductions in this percentage amount could be viewed as a policy tool to ensure that the compliance fee, serves as a de-facto buy out price rather than simply a penalty for non-compliance. **Question 14**

As per our comments in section 2.3 and our answer to **Error! Reference source not found.** it is important that the compliance fee acts as a buy out price, closely aligned to the marginal cost of producing biofuels, rather than solely as a penalty for non-compliance that is seldom if ever applied. If the compliance fee becomes detached from the marginal cost of biofuel production, it will serve no purpose as a price signal to developers of new technologies/production facilities. It is therefore important that measures are considered to

ensure that the compliance fee remains tied to the marginal cost of fuel production as the scheme progresses and the compliance fee increases. Policy options for maintaining this relationship could include changes to the obligation rate of certain fuels and/or changes to the number of certificates permitted to be carried over in a single year. Energia would advocate that the question of whether the compliance fee is acting as a meaningful price signal be kept under review on a continual basis as the BOS progresses.

### **3.13 Question 15**

Energia have some concerns about the potential interference in the market that could be caused by a significant oil/biofuel supply disruption. We would advocate that the threshold for what constitutes a supply disruption to be extremely high to merit such a distortive intervention in the market. As we have stated, the level of the compliance fee should provide the opportunity cost for not meeting one's obligation, to the extent that it provides a meaningful price signal to new entrants.

Energia would also consider that there is a risk of encouraging moral hazard among obligation parties if the threshold for what constitutes a major supply disruption is too low. Otherwise individual parties may not feel the need to take precautionary measures such as maintaining sufficient inventory levels to meet their obligations.

### **3.14 Question 16**

Energia recognises the challenges associated with both decarbonising and increasing the amount of renewable energy component of heat in Ireland. The economic approach to reducing the carbon intensity of heat at present is to encourage households to move away from oil and/or solid fuel heating. A biofuel obligation might be part of the policy solution to this problem, but Energia would advocate that such an obligation would form part of the overall solution otherwise there are risks that the transition to decarbonised heat is far from just.